

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION

POSTAL RATE AND FEE CHANGES, 1997


DOCKET NO. R97-1

**ANSWERS OF UNITED PARCEL SERVICE WITNESS
RALPH L. LUCIANI TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE
(USPS/UPS-T4-22 through 27(a) and 28 through 53)**

(February 11, 1998)

Pursuant to the Commission's Rules of Practice, United Parcel Service ("UPS") hereby serves and files the responses of UPS witness Ralph L. Luciani to interrogatories USPS/UPS-T4-22 through 27(a) and 28 through 53 of the United States Postal Service. Interrogatories 27(b) and (c) have been redirected to UPS witness Sellick.

Respectfully submitted,


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USPS/UPS-T4-22. Please refer to pages 16 and 17 of UPS-T-4.

a. Please assume that DSCF mailings will contain pieces destinating within the service area of a delivery unit that is co-located with the DSCF. Confirm that under these conditions, witness Hatfield has not overstated DSCF transportation costs by 12.3%, but by some amount less than 12.3%. If not confirmed, please explain.

b. Please assume that 12.3% of DSCF mail will destinate within the service area of a delivery unit that is co-located with the DSCF. Confirm that under these conditions, witness Hatfield has not overstated DSCF costs at all.

Response to USPS/UPS-T4-22. (a) I assume the question is meant to read that witness Hatfield has not understated DSCF transportation costs. According to the Postal Service (Tr. 19/9555), those 5-digit presort sacks and containers destinating to the co-located DDU would qualify for the DDU discount. Thus, this must be a combined DSCF/DDU mailing. Those pieces that get the DSCF discount, and not the DDU discount, will travel to a non-co-located DDU. This means that Mr. Hatfield has understated the DSCF transportation costs (above the level of the delivery unit) by 12.3%.

If I assume (contrary to the Postal Service's stated intentions) that those 5-digit presort sacks and containers destinating to the co-located DDU do not receive the DDU discount, there would be two effects. First, the DSCF transportation costs would not have been understated by Mr. Hatfield by 12.3%, but by some lesser amount. Second, the 31.4 cents per piece of processing costs avoided by DSCF entry estimated by Mr. Crum would have to be reduced.

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Mr. Crum computes the costs avoided by DSCF entry against a base that assumes that 100% of parcels are unloaded and crossdocked at the DSCF and subsequently unloaded again at the DDU (See USPS-T-28, Exhibit G). Mr. Crum deliberately overrode Ms. Daniel's model, which only had 87.7% of parcels unloaded and crossdocked at the DSCF under base conditions (Id.). Clearly, Mr. Crum's assumption would have to be modified if the 5-digit presort sacks and containers destinating to the co-located DDU do not receive the DDU discount. Thus, if Mr. Hatfield is right, then Mr. Crum is wrong; they cannot both be right. Regardless of the assumption used, the costs avoided by DSCF entry have been overstated by the Postal Service.

(b) Not confirmed. See my response to part (a).

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USPS/UPS-T4-23. Please refer to pages 16 and 17 of UPS-T-4.

a. Please confirm that your proposed \$0.0468 increase in DSCF transportation costs would lead to a corresponding \$330,908 increase in revenues recovered for DSCF transportation costs (based on DSCF cubic feet of 7,066,584). If not confirmed, please explain.

b. In order to ensure that unit transportation cost estimates recover only test year transportation costs, wouldn't it be necessary to lower the non-DSCF DBMC transportation costs by \$330,908? Please explain your answer other than an unqualified 'yes'.

Response to USPS/UPS-T4-23. (a) Confirmed that there would be an increase in revenues. I calculate \$330,716.

(b) No. To take this revenue into account, the analysis in USPS-T-16, Appendix I, page 13, would need to be redone taking into account the number of local legs by type. The end result would be slightly lower transportation costs for intra-BMC, inter-BMC and non-DSCF DBMC parcels. Going through the calculation would also lower the DSCF transportation cost (i.e., DSCF transportation cost would continue to be 12.3% higher than the cost of local transportation for DBMC mail above the level of the delivery unit). In the rate design process, a slightly higher markup would then be applied to all of these slightly lower transportation costs to yield the overall cost coverage required. Thus, correcting for this difference would be complex and likely would yield little material difference in the rates.

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USPS/UPS-T4-24. Please refer to pages 30 and 31 of UPS-T-4.

- a. Please provide any quantitative evidence to support your statement on lines 16-18 that "taking into account these other eight flowpaths would likely lower Inter-BMC and Intra-BMC transportation costs, and increase DBMC transportation costs."
- b. Please confirm that higher degrees of "skipping around" within a particular rate category of Parcel Post would be evidenced by a greater share of inter-SCF transportation costs and a smaller share of intra-BMC and/or inter-BMC transportation costs. If not confirmed, please explain.
- c. Please confirm that witness Hatfield has allocated an equal share of inter-SCF transportation costs to each rate category of Parcel Post based on cubic foot legs. If not confirmed, please explain.
- d. Based on your responses to parts (a) - (c) of this question, please confirm that explicitly accounting for inter-SCF transportation flows in Mr. Hatfield's analysis would have the following effects on his current results: (1) movement of inter-SCF transportation costs from DBMC to non-DBMC rate categories and (2) movement of intra-BMC and/or inter-BMC transportation costs from non-DBMC rate categories to DBMC. If not confirmed, please explain.
- e. Based on the fact that explicitly accounting for inter-SCF flows in Mr. Hatfield's analysis would lead to both the addition and removal of costs from the DBMC rate category, please justify your claim that DBMC costs will increase without having performed any quantitative analysis.

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Response to USPS/UPS-T4-24. (a) The quantitative evidence is based on the probability of there being a skip around the simplified transportation path model of Mr. Hatfield. According to Mr. Acheson, there are eight alternative paths through which an intra-BMC or inter-BMC piece can skip one or more transportation legs of Mr. Hatfield's simplified model. Only one of these eight alternative paths identified by Mr. Acheson can be taken by DBMC parcels. Thus, by default, there must be more opportunity for intra-BMC and inter-BMC parcels to skip legs of transportation and thereby lower their relative transportation costs in relation to DBMC parcels.

(b) Confirmed. Skipping around also would lead to a decrease in intra-SCF transportation costs. Since only two of the eight alternative paths that lead to skipping of transportation legs are inter-SCF transportation paths, skipping around does not necessarily result in inter-SCF transportation costs being incurred.

(c) I am not familiar with the term cubic foot legs. However, I agree that inter-SCF transportation costs are allocated equally per cubic foot for the average number of legs assumed by Mr. Hatfield to be traveled by rate category. However, the number of legs assumed by Mr. Hatfield to be traveled by rate category did not take into account the probability of a skip resulting from traveling on alternative paths.

(d) Confirmed. Intra-SCF costs also would be transferred from non-DBMC categories to DBMC.

(e) While the inter-SCF transportation costs for the inter-BMC and intra-BMC rate categories likely would increase, the intra-BMC and intra-SCF transportation costs would likely decrease much more. This is because of the disproportionate number of transportation legs that would be skipped by the inter-BMC and intra-BMC rate categories. The ultimate proportion of transportation costs by rate category cannot be

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determined in the absence of a study similar to that performed by Mr. Acheson in Docket No. R90-1 for Third Class mail. The Postal Service has not conducted such a study for Parcel Post. This leads to uncertainty surrounding the avoided cost estimates for DBMC entry.

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USPS/UPS-T4-25. Refer to lines 6-8 on pages 33 of UPS-T-4 where you state, "Mr. Hatfield, in deriving the cost of DDU transportation, implicitly assumes that DDU has the same density profile as DSCF and DBMC."

a. Please verify that according to witness Hatfield's methodology, the transportation cost associated with exactly 1.0 legs of local transportation for a given rate category would be calculated as follows: $\text{Local Costs}/(\text{Total Test Year Cubic Feet} * \text{Average Number of Local Legs})$. If not confirmed, please explain.

b. Please verify that the result of the calculation described in part (a) is 0.3997 \$/cubic foot, and that this result is the same for inter-BMC, intra-BMC, and DBMC. For example, for inter-BMC the calculation is: $\$26,934.000/\$34,466.346*1.96$. If not verified, please explain.

c. Based on your response to part (b), please confirm that according to witness Hatfield's methodology, the average local transportation cost per cubic foot for mail that travels exactly one local leg is the same across all three rate categories. If not confirmed, please explain.

d. Please confirm that the average density within each category of parcel post is different. If not confirmed, please explain.

e. Based on your response to parts (c) and (d), please confirm that local transportation costs per cubic foot for parcels that travel exactly one local leg do not depend on density. If not confirmed, please explain.

Response to USPS/UPS-T4-25. (a) - (e) Confirmed. See my response to USPS/UPS-T4-16.

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USPS/UPS-T4-26. Please refer to pages 34-38 of UPS-T-4.

- a. Please confirm that witness Hatfield allocates distance related costs to zone based on cubic foot miles.
- b. Please confirm that witness Hatfield allocates non-distance related costs to zone based on cubic feet.
- c. Please confirm that if a particular grouping of costs were to be split into distance and non-distance related components, it would be logical to allocate costs to zone based on both cubic feet and cubic feet miles according to the methodology presented in witness Hatfield's testimony.
- d. In UPS-T-4, you claim that intra-BMC intermediate transportation costs are partially distance related and partially non-distance related. Please explain why you have not allocated the non-distance related portion using cubic feet and the distance related portion using cubic foot miles.
- e. Please provide any analyses or data to support your claim that the difference in transportation costs per cubic foot between intra-BMC and inter-BMC remains constant across zones.

Response to USPS/UPS-T4-26. (a) - (b) Confirmed.

(c) Confirmed that the approach used by Mr. Hatfield with respect to distance and non-distance related components is logical.

(d) - (e) As noted in my testimony, I recommend for rate design purposes that the transportation costs by zone for intra-BMC Parcel Post be set to be an equal amount (in dollars per cubic foot) below the corresponding total of inter-BMC transportation costs by zone. This yields a more understandable relationship between intra-BMC rates and

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inter-BMC rates. Given the absence of any reliable data regarding the distance and non-distance related share of intra-BMC intermediate transportation costs, in my view the rate design objective for comprehensible rates overrides the technical objective cited in the question. Implementing the technical objective as suggested in the question would not necessarily yield rates that are more accurate, and the resulting rates themselves likely would be less comprehensible.

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USPS/UPS-T4-27. Please refer to pages 43-44 of your direct testimony, where you state that "the average weight of Priority Mail parcels observed in IOCS was 3.34 pounds" with footnote 41 referring to UPS-Sellick-WP-1-III-A.

a. Please confirm that the referenced workpaper does not contain average weights of Priority Mail by shape. If not confirmed, please provide a correct, explicit reference.

b. Please confirm that the 3.34 pounds was derived by computing an unweighted mean of the weight recorded on any IOCS direct tally of a Priority Mail IPP or parcel. If not confirmed, please explain how it was computed or derived.

c. Please list all assumptions needed for an average weight estimate obtained in this manner to be an unbiased estimate of the average weight of a Priority Mail IPP or parcel.

Response to USPS/UPS-T4-27. (a) The reference should be to UPS-Sellick-WP-1-VI-A.

(b) - (c) Redirected to UPS Witness Sellick.

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USPS/UPS-T4-28. Please confirm that for Priority Mail, when the IOCS observed average weight per piece by shape is multiplied by the ODIS average daily volume by shape and aggregated across shapes, the resulting weight exceeds BY96 weight by more than 55%, e.g. 1.02 pounds per flat (p.43)* 1,197,156 flats per day (UPS-Sellick-1-III-a, p.2)* 302 days per year + 3.34 pounds per parcel (p.44)*2,049,308 IPPs and parcels per day (UPS-Sellick-1-III-a, p.2)* 302 days = 2,435,868 thousand pounds, compared to 1,562,801 thousand pounds reported by RPW. If not confirmed, please explain fully.

Response to USPS/UPS-T4-28. Confirmed that the calculations above are correct. Taking these calculations at face value, it could be that the weight differential between Priority Mail flats and parcels is lower than the figure I used to derive the surcharge for Priority Mail parcels. This would result in an increase in my recommended surcharge.

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USPS/UPS-T4-29. Suppose the average revenue of the Priority Mail flats observed in IOCS is \$4.23, and the average revenue of the Priority Mail IPPs and parcels observed in IOCS is \$5.09. Please confirm that this \$0.86 difference in revenue might offset the \$0.13 difference in cost per piece shown in workpapers UPS-Sellick-1-III-A, p.2. If not confirmed, please explain fully.

Response to USPS/UPS-T4-29. Not confirmed. Revenues are driven by the rate schedule. The Priority Mail rate schedule currently is designed to reflect only differences in transportation costs and non-transportation weight-related costs. The rate schedule includes a markup on these differences. There is no reflection in the rates for the difference in cost caused by shape.

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USPS/UPS-T4-30. Please refer to your testimony on page 45, lines 22-23 where you state: "Fairness requires that the cost of the delivery confirmation activity be borne solely by those who will use it." Do you propose that this is the only definition of fairness that is consistent with the ratemaking criteria established in the Act?

Response to USPS/UPS-T4-30. The cited statement does not contain a definition of fairness. Fairness as used here simply means that rates should reflect costs. I believe this to be consistent with the ratemaking criteria in the Act.

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USPS/UPS-T4-31. Did the relative cost coverages of Standard (B) and Priority Mail inform your conclusions regarding the appropriateness of the Delivery Confirmation fees proposed in the testimony of witness Plunkett (USPS-T-40)? Please comment.

Response to USPS/UPS-T4-31. No, nor do I believe that they should. The much higher cost coverage for Priority Mail is long-standing and obviously predates the availability of delivery confirmation. It is meant to reflect non-cost considerations. Under the Postal Service's proposal, Priority Mail users that do not use delivery confirmation will be charged rates that include costs attributable to delivery confirmation service. They will also pay rates that yield higher cost coverages than would otherwise be the case. These users should not be forced to pay higher rates as a result of a service that they do not use and for costs that they do not cause.

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USPS/UPS-T4-32. Please explain the basis of your statement "delivery confirmation precipitated the purchase of the scanners." (Page 47, lines 15-16).

Response to USPS/UPS-T4-32. While Mr. Treworgy outlined several uses for the scanners (Tr. 3/1312), the timing of the May 6, 1997, decision to purchase the scanners (Tr. 3/1225) was likely driven by the need to have a more effective delivery confirmation process in place for Priority Mail. The delivery confirmation process outlined by Mr. Treworgy in Docket No. MC97-2 for Standard B Mail involved the use of peel-off labels and ultimately placing these labels on various forms (Tr. 3/1214). Mr. Treworgy noted that the new scanners are largely for the benefit of the mailers for whom the peel-off labels would be difficult -- primarily the bulk mailers using electronic delivery confirmation (Tr. 3/1292). I do not disagree that the scanners ultimately may be used for a number of purposes; however, of those purposes, it appears that the need to have these scanners in place for Priority Mail and Parcel Post dictated the timing of the purchase.

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USPS/UPS-T4-33. If you are unable to answer the following questions, please redirect them to someone at United Parcel Service who can answer them on behalf of the company.

a. Does UPS provide any service which allows customers to retrieve electronically stored information regarding the status of their shipments? If so, please list the types of delivery services with which this service is offered and the fees charged for this service with each of those delivery services.

b. For any such charge which is currently zero, has UPS in the past ever charged customers to retrieve electronically stored information regarding the status of their shipments? If so, please specify the types of delivery service for which there was a charge for this service.

Response to USPS/UPS-T4-33. (a) - (b) I do not know.

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USPS/UPS-T4-34. Please confirm that your proposed Priority Mail parcel surcharge will result in increased Priority Mail revenue. Please indicate where a corresponding decrease in revenue occurs in order to meet the breakeven criterion.

Response to USPS/UPS-T4-34. Confirmed, all else equal. I have not formed a recommendation regarding how the revenues from the surcharge should be treated. In practice, the implementation of the surcharge could be handled by lowering the base Priority Mail rates exclusive of the surcharge.

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USPS/UPS-T4-35. Please indicate which other shipping companies have a shape-based surcharge for two- or three-day delivery of parcel-shaped mail.

Response to USPS/UPS-T4-35. I do not know.

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USPS/UPS-T4-36. Based on your experience, do parcel- and flat-shaped mail have different price elasticities? If yes, please explain.

Response to USPS/UPS-T4-36. I have not examined this issue. To my knowledge, Dr. Tolley does not estimate different elasticities for Priority Mail parcels and Priority Mail flats.

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USPS/UPS-T4-37. Please refer to page 15, lines 5-6 of your testimony.

Is it your understanding that witness Crum testified that the Postal Service currently has dropshipment procedures for DSCF or DDU parcel post? Please explain fully.

Response to USPS/UPS-T4-37. The cited statement refers to Mr. Crum's testimony regarding Postal Service DSCF dropshipment procedures. Mr. Crum testified that there are current guidelines regarding dropshipment mail at DSCFs (Tr. 5/2283). Parcel Post is currently dropshipped at the DSCF (USPS-T-16, Appendix I, page 13). Thus, there are current guidelines in effect for Parcel Post dropped at the DSCF. The Postal Service also has guidelines in effect for DDU entry (Tr. 5/2310). Ms. Mayes assumes that currently there are significant numbers of Parcel Post pieces dropped at the DDU (Tr. 8/4171).

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USPS/UPS-T4-38. Please refer to page 15, line 14 and page 19, line 4 of your testimony as well as Tr. 5/2283, 2299, and 2301. Please provide the basis for your assumptions regarding "Postal Service policy."

Response to USPS/UPS-T4-38. My reference is to Tr. 5/2400, but similar guidelines also appear at 5/2310. When the guidelines and operating procedures are in published form (and, for example, posted on the walls at Postal Service facilities), I believe it fair to refer to them as "Postal Service policy."

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USPS/UPS-T4-39. Please refer to page 5 of your testimony. Please provide the "pre-passthrough" acceptance savings determined by the Commission in Docket No. R90-1.

Response to USPS/UPS-T4-39. The pre-passthrough window and acceptance savings were 9.8 cents per piece in Docket No. R90-1 (PRC-LR-7, DBMC Calculations, p. 1). This is very close to the 9.2 cents per piece estimated by Mr. Crum in Docket No R97-1. The window and acceptance savings have not changed in the same inexplicable manner as the mail processing savings have.

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USPS/UPS-T4-40. Please refer to page 9, lines 10-13 of your testimony.

a. Is it your testimony that DBMC parcel post avoids no outgoing costs at BMCs? If your answer is yes, please explain and provide any evidence you might have to support that claim.

b. Please confirm that page 2 of your Exhibit UPS-T-4B could be used to show that DBMC avoids 7.9 cents per piece of outgoing costs at BMCs compared to Intra-BMC (line 12 - line 19). Please fully explain any negative or partially negative response.

c. Please refer to page 9 of your testimony, and to USPS-T-29, Appendix V, page 16. Is it your understanding that destinating BMCs will feed barcoded destinating mail unfiltered to the secondary parcel sorting machine? Is it your testimony that these pieces receive outgoing costs? If so, please provide any supporting evidence you have.

Response to USPS/UPS-T4-40. (a) No. This issue has not been examined by the Postal Service. For example, with respect to platform acceptance and central mail markup, there are likely additional costs incurred by DBMC parcels subsequent to their arrival at the BMC. Ms. Daniel noted that the DBMC outgoing costs she did identify were only for the purposes of deriving the proportional adjustment factor (USPS-T-29, Appendix V, p. 11). To the extent that certain costs at the BMC incurred by DBMC parcels were not part of Ms. Daniel's analysis, I have underestimated in this exhibit the impact of removing the costs at the ASF when the ASF acts as a BMC.

(b) Confirmed for those outgoing costs identified. See my response to part (a).

Moreover, it would be inconsistent to use Ms. Daniel's results only to compute some of

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the avoided costs at the BMC, without using a similar analysis for processing costs at the AO and origin SCF. For example, Ms. Daniel shows only 7.6 cents in processing costs at the origin SCF for intra-BMC machinable parcels and 17.7 cents per piece for non-machinable intra-BMC parcels, for a weighted average of only 8.5 cents per piece (USPS-T-29, Appendix V, pages 8-9). Yet, Mr. Crum calculates that 37.7 cents per piece of processing costs are avoided by DBMC prior to the BMC.

(c) Yes, for approximately one-half of inter-BMC parcels (see USPS-T-29, page 17, lines 17-20). Inter-BMC parcels do not incur outgoing costs at the destination BMC (LR-H-49, Appendix B, page 144).

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USPS/UPS-T4-41. Please refer to page 28, lines 3-4. Is it your testimony that no non-DBMC mail is verified by Postal Service clerks at the mailer's plant? Please provide evidence to support any affirmative response.

Response to USPS/UPS-T4-41. No. However, common sense suggests that the verification is for large-volume mailers. Such mailers are significant users of DBMC entry.

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USPS/UPS-T4-42.

a. Please confirm that in Exhibit UPS-T-4B, you are assuming that ASFs are acting as BMCs (i.e. processing the pieces) and not merely passing the volume to the parent BMC for sortation and transport. Please fully explain any negative response.

b. If you confirm part (a), please refer to the attachment, which shows current outgoing parcel splits for five ASFs. If you were aware of these plans, would you have made an assumption other than the one you made. Please explain your answer.

Response to USPS/UPS-T4-42. (a) - (b) Confirmed that I have performed the calculation assuming all ASF volume is processed at the ASF at the highly efficient cost of a BMC. Not confirmed that I assume that all ASFs will process all volumes. I have reviewed the testimony of Mr. Byrne in Docket No. R84-1 (USPS-T-14), which makes clear that the handling of parcels by the various ASFs can vary depending on operational circumstances. In my view, using the highly efficient cost of the BMC to cost all ASF service provides a conservative estimate of the average outgoing costs incurred at ASFs when the ASF acts as a BMC. For example, Mr. Byrne computed that the processing costs for machinable parcels was 14.3 cents per piece for intra-BMC Parcel Post and 19.1 cents per piece for intra-ASF Parcel Post. For non-machinable parcels, Mr. Byrne computed 30.7 cents per piece for intra-BMC and 40.1 cents per piece for intra-ASF (See USPS-14V, Docket No. R84-1). Reviewing the attachment provides me no further insight than I was able to determine from the testimony of Mr. Byrne and based on the attachment, I would not change my approach.

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USPS/UPS-T4-43. Please refer to page 21 of your testimony. After describing many problems with barcodes, you stated that "there is no difference in these respects between Postal Service barcoded pieces and mailer prebarcoded pieces."

- a. Please confirm that if a mailer's barcode is printed directly onto a parcel it cannot fall off.
- b. Please confirm that if a mailer's barcode shows through a plastic window, it cannot fall off.
- c. Please confirm that if the Postal Service requires prebarcodes to meet readability and accuracy standards before the mailer can receive the prebarcode discount, this will reduce the chance of the barcode falling off, being incorrect, or being obstructed or otherwise unreadable.
- d. Please confirm that if the mailer's barcode is examined by the Postal Service before it is accepted, this will reduce the chance of the barcode falling off, being incorrect, or being obstructed or otherwise unreadable.
- e. Please confirm that mailer's list-generated barcodes are more likely to be accurate than human applied barcodes.

Response to USPS/UPS-T4-43. (a) Confirmed, it cannot fall off. However, it could lead to additional scanning errors, depending on how and where the printing is done on the parcel.

(b) Confirmed as a general proposition; however, much depends on how the window is attached to the parcel.

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(c) Confirmed that this should reduce the chance, if the requirements are enforced, although not necessarily to the same level as the barcodes applied by the Postal Service.

(d) Confirmed that this should reduce the chance, although it appears that the extra cost incurred through this examination has not been taken into account in Ms. Daniel's analysis of the prebarcoding avoided costs.

(e) Confirmed. Whether this matters to any degree depends on the rate of keying error, for which I have seen no data.

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USPS/UPS-T4-44. Refer to Table 14 on page 42 of your testimony.

- a. Please provide an exact citation to UPS-Luciani-WP-4 where the Prebarcoding Revised Avoided Cost with 100% MP Labor Variability can be found.
- b. Please confirm that the difference in the model cost of PSM key and scan on page 13 of 63 of UPS-Luciani-WP-4 is \$0.0223.
- c. Please confirm that adding the \$0.005 cost per ribbon to the difference in the model cost of PSM key and scan on page 13 of 63 of UPS-Luciani-WP-4 is \$0.0273. If confirmed, please reconcile this figure with the 2.66 figure shown in Table 14.

Response to USPS/UPS-T4-44. (a) The relevant figures are contained on page 13 of 63 of UPS-Luciani-WP-4.

(b) Confirmed.

(c) Confirmed. Table 14 should be corrected to read 2.73 cents per piece rather than 2.66 cents per piece for prebarcoding. With a 77% passthrough, the discount is 2.1 cents per piece.

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USPS/UPS-T4-45. Please refer to page 43 of 63 of your WP-4.

- a. Please confirm that the outgoing mail processing cost difference you show between barcoded and nonbarcoded mail is \$0.0295.
- b. Please confirm this cost difference does not include the \$0.005 ribbon and label costs incurred by nonbarcoded mail.
- c. Why isn't the Avoided Cost/Discount for Prebarcoding shown in Table 14 on page 42 of your testimony not 3.45 cents?

Response to USPS/UPS-T4-45. (a) Confirmed. These total costs follow the methodology of Ms. Daniel and include the proportional multiplier as applied across a broad spectrum of activities

(b) Confirmed.

(c) For the reasons contained on pages 20-21 of my testimony, when looking solely at the difference in the operation that drives the difference between pre-barcoded and barcoded mail, the proportional multiplier should not be included. For computational ease, the proportional multiplier was applied to the total costs of barcoded and nonbarcoded mail separately. Application of the proportional multiplier subsequent to the combination of the barcoded and nonbarcoded mail costs would have yielded no difference in my calculations.

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USPS/UPS-T4-46. Refer to Table 14 on page 42 of your testimony.

- a. Please provide an exact citation to UPS-Luciani-WP-4 where the BMC Presort Non-Transportation (off of Inter-BMC) Revised Avoided Cost with 100% MP Labor Variability of 21.1 can be found.
- b. Please confirm that on page 31 of 63 of UPS-Luciani-WP-4 and the Summary Sheet the cost avoidance for OBMC BMC Presort Savings is \$0.155 but BMC Presort Non-Transportation (off of Inter-BMC) Revised Avoided Cost with 100% MP Labor Variability in Table 14 is 22.1. If confirmed, please reconcile the difference.

Response to USPS/UPS-T4-46. (a) Refer to UPS-Luciani-WP-4, page 35 of 63.

(b) I assume the question means to say 21.1, rather than 22.1. If so, confirmed. This simply follows the methodology of Witness Crum in his Exhibit D. The OBMC presort savings refers to the presort savings that take place only at the BMC.

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USPS/UPS-T4-47. Please refer to Table 14 on page 42 of your testimony.

a. Please confirm that on page 31 of 63 of UPS-Luciani-WP-4 and the Summary Sheet the cost avoidance for DSCF Discount is \$0.368 but is 36.7 in Table 14. If confirmed, please reconcile the difference.

b. Please confirm that on page 31 of 63 of UPS-Luciani-WP-4 and the Summary Sheet the cost avoidance for DDU Discount is \$0.718 but is 71.7 in Table 14. If confirmed, please reconcile the difference.

Response to USPS/UPS-T4-47. (a) Confirmed. Table 14 should be corrected to read 36.8 cents per piece for the DSCF non-transportation discount instead of 36.7 cents per piece. After rounding, the discount with a 77% passthrough applied remains unchanged at 28.3 cents per piece.

(b) Confirmed. Table 14 should be corrected to read 71.8 cents per piece for the DDU non-transportation discount instead of 71.7 cents per piece. After rounding, the discount with a 77% passthrough applied changes to 55.3 cents per piece.

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USPS/UPS-T4-48. Why are the piggyback factors used on page 29 of 63 of UPS-Luciani-WP-4 derived by multiplying the piggyback factors from LR-H-77 by 0.9302 instead of using the piggyback factors calculated in LR-H-318?

Response to USPS/UPS-T4-48. I had not received LR-H-318 by the time my testimony was filed. The notice that LR-H-318 was filed was received on December 29, 1997. In the absence of LR-H-318, Mr. Sellick estimated that the original piggyback factors would be multiplied by a factor of 0.9302 on average. While the individual piggyback factors applied using Mr. Sellick's estimate are different from those contained in LR-H-318 in aggregate, I have confirmed that there would be immaterial differences to my results using our estimated piggyback factors as opposed to the piggyback factors contained in LR-H-318.

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USPS/UPS-T4-49. Please refer to page 10 of your testimony where you state "parcel sorting productivity at ASFs is almost certainly lower."

a. Please confirm that the costs (\$0.208) incurred to support a mechanized environment shown on page 44 of 63 of WP-4 such as dumping into a PSM (\$0.095), sack sorter (\$0.005), sack shakeout (\$0.023) and sweeping runouts (\$0.089) would not be incurred in a simplified manual environment like those found at ASFs.

b. Please confirm ASFs would have fewer outgoing separations to make than BMCs if they did not sort to every other BMC.

c. Please confirm that manual sorting productivities should be higher if there are fewer separations, all else equal.

d. Do you think it is possible that the productivity for manual sorts with 1-5 separations could be faster than a mechanized sort with at least 21 separations?

e. Do you think that the cost of an outgoing sort of primarily machinable parcels to only a few BMCs would be cheaper than the \$0.179 cost of the manually sorted incoming 3-Digit nonmachinable parcel to 5-Digits you show on page 25 of 63 of WP-4?

Response to USPS/UPS-T4-49. Confirmed that costs at the ASF in the absence of these specific machine costs would be different. However, they would be replaced by other costs, such as the 26.5 cents for move costs at the SCF for the manual sort contained on page 25 of 63.

(b) Confirmed.

(c) Confirmed that the fewer the separations, the higher the manual productivity is likely to be, all else equal.

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(d) It is possible. In the absence of any data, I would regard it as unlikely that a manual sortation of parcels (which generally requires tossing the parcels one at a time into an array of hampers) would be nearly as efficient as the mechanized sort at the BMC. Also, see my response to USPS/UPS-T4-42.

(e) Manual sorting of primarily machinable parcels likely would be more efficient, but it is unlikely to be as low as the 3.7 cents to 5.9 cents I conservatively use on pages 43 and 44 for sortation at the ASF.

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USPS/UPS-T4-50. Please refer to your WP-4 page 6 of 63.

- a. Why did you assume all DSCF sacks will arrive bedloaded?
- b. Why did you not assume DSCF sacks may come in rolling stock or some mix of bedloading and rolling stock?
- c. Would the costs incurred by USPS as a result of assisting with unloading be lower if sacks were also in rolling stock? Please explain.

Response to USPS/UPS-T4-50. (a)-(b) Mr. Crum treats the machinable DSCF sacks as bedloaded throughout his analysis. I accepted his assumption for purposes of computing the cost of assistance in unloading.

(c) It might. It would depend on the container used. The Postal Service's share of the work would increase from 50% to 100%, as described on page 15 of my testimony. Moreover, costs elsewhere in the Postal Service's processing stream would change after take into account the rolling containers.

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USPS/UPS-T4-51. Please refer to your WP-4 page 6 of 63.

- a. If USPS allowed mailers to assist unloading wheeled containers, would the same 50% share of the work made with regard to sacks be a reasonable assumption?
- b. If your answer to part (a) is no, please explain in detail.
- c. If your answer to part (a) is yes, please recompute your adjustment assuming the 50% USPS assistance.

Response to USPS/UPS-T4-51. (a) - (c) Yes, although allowing mailers to assist with this type of unloading is in violation of Postal Service procedures. The costs for Postal Service assistance on WP-4, page 6 of 63, would change to 2.85 cents per piece.

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USPS/UPS-T4-52. Please provide citations to the figures used on your SP-4 page 40 of 63.

Response to USPS/UPS-T4-52. Page 40 of UPS-Luciani-WP-4 is a modified version of page 3 of Mr. Crum's Exhibit G (USPS-T-28). The figures \$0.279 and \$0.919 can be found on page 39 of WP-4. The figures (\$0.338) and (\$0.760) should have their parentheses removed and can be found on page 38 of WP-4.

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USPS/UPS-T4-53. Why do you consider the destinating NMO sort to 3-Digit incurred by intra-BMC and DBMC parcels "outgoing" costs on pages 50 and 54 of 63 in your WP-4?

Response to USPS/UPS-T4-53. The IOCS handbook states that the primary (first) sort is part of the Outgoing basic function for DBMC and intra-BMC mail (LR-H-49, Appendix B, page 144).

DECLARATION

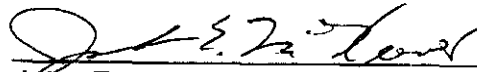
I, Ralph L. Luciani, hereby declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.

Ralph L. Luciani
Ralph L. Luciani

Dated: February 10, 1998

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with section 12 of the Commission's Rules of Practice.

A handwritten signature in cursive script, appearing to read "John E. McKeever", written over a horizontal line.

John E. McKeever

Dated: February 11, 1998
Philadelphia, PA